



United States
Department of
Agriculture

Rural Development
Rural Business -
Cooperative Programs
Rural Housing Programs
Rural Utilities Programs

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VA AN No. 392
HB-1-3550, Chpt. 10

April 29, 2002

TO: Rural Development Managers
Community Development Managers
Rural Development, Virginia

SUBJECT: Section 502 Leveraging Initiatives and Goals

PURPOSE/INTENDED OUTCOME:

This Administrative Notice is to remind Single Family Housing Loan Originators and Rural Development Managers that all applicants for Section 502 Direct will be considered for leveraging.

COMPARISON WITH PREVIOUS AN:

This AN slightly modifies and replaces VA AN No. 378 (HB-1-3550).

BACKGROUND:

Loan Originators are responsible to use the pre-qualification process to adequately consider all loan applicants for some form of loan leveraging. HB-1-3550, paragraph 3.3 states, if the applicant has not obtained private financing "as part of the application process, they will be required to attempt to obtain private financing." HB-1-3550, paragraph 10.6, states, "Because both loan and grant funds may leverage Agency financing, any applicant for an Agency loan is a potential candidate for leveraging. Very low-income applicants will not be required to seek private financing to leverage the Agency loan, but the Loan originator should provide information to these applicants about other sources of subsidized loans or grants."

IMPLEMENTATION RESPONSIBILITIES:

HB-1-3550, paragraphs 3.3 and 10.6 state, "Unless a low-income applicant's credit history is such that a private lender is unlikely to provide even a leveraged loan, the Loan Originator will use UniFi to calculate the maximum allowable loan the applicant could receive if 80% of the loan funds were provided by the Agency at standard rates and terms, and 20% of the loan funds were provided by a private lender at market rates and terms. If the resulting maximum loan appears sufficient to enable an applicant to purchase an appropriate home in the market area, the Loan Originator must notify the applicant that a final determination of eligibility cannot be made until the applicant has attempted to obtain private financing for at least 20% of the loan." Evidence of this consideration will be placed in the case file.

EXPIRATION DATE: APRIL 30, 2003

FILING INSTRUCTIONS: HB-1-3550, CHPT. 10

Rural Development is an equal opportunity provider and employer. To file a complaint of discrimination, write:
USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW,
Washington, D.C. 20250-9410 or call 202.720.5964 (voice and TDD).

As directed by the National Office, we have established the following set asides and goals for participating with lenders in leveraging our Section 502 allocations:

- 5% for use by very low-income applicants
- 25% for use by low-income applicants with 15% available through the state reserve and the remaining 10% to be made available by the RDM from their sub-allocation

Community Development Managers, with the assistance of Rural Development Managers, will develop partnerships with lenders and non-profit groups to establish a network of leveraging possibilities. Partnerships are encouraged in order to serve more customers and to establish a constituency base to assist Rural Development accomplish its mission. Before any leveraged loans can be processed, a MOU must be established with the lending partner. Attachment A is the standard to be used for all leveraging MOUs. This will not only streamline loan process but also eliminate confusion if loan servicing actions need to be taken. Attachment B is a list of current lending partners in Virginia.

Another component of successful leveraging partnerships can involve local, community-based, not-for-profit agencies, having the required § 501(c)(3) tax-exempt designation from the IRS, commonly referred to as Community Development Corporations (CDCs). In these cases, the CDC does the outreach and pre-qualifies prospective applicants, packages and submits complete loan applications ready for underwriting, provides homebuyer education, and are useful in obtaining low cost funds to assist with closing costs or gap financing. CDMs should periodically canvass their jurisdiction to identify, develop and maintain working relationships with CDCs. An excellent resource to consider for this purpose is the Virginia Housing Directory, which can be found at <http://www.vhda.com/>.

In addition to these more formal partnerships enabling RD to originate more loans with fewer financial and human resources, additional funds from either the Rural Home Loan Partnership (RHLP) or Community Development Financial Institution (CDFI) set-asides are available to supplement our 502 allocations. Questions concerning these Homeownership Partnership programs should be addressed to Philip Stetson or Agnes Rollins in the SFH Division.

All employees involved in the Single Family Housing programs are responsible to help the State achieve the above stated goals. With the availability of established statewide lending partners, it is essential that we utilize all available resources and take advantage of these partnerships for expanding homeownership opportunities.

Any questions or comments should be directed to the Single Family Housing Division.

JOSEPH W. NEWBILL
State Director
USDA Rural Development

MEMORANDUM OF UNDERSTANDING
FOR LEVERAGED LOANS

Lender:

Agency: USDA Rural Housing Service
1606 Santa Rosa Road
Culpeper Building, Suite 238
Richmond VA 23229-5014
(P) 804/287-1598
(F) 804/287-1720

Introduction: This Memorandum of Understanding (MOU) is entered into between the _____ “the Lender” and the Rural Housing Service, acting through USDA Rural Development, “the Agency”. The effective date of this MOU is _____. In consideration of the mutual benefits to be derived from the making of leverage loans, the Lender and the Agency agree to the terms as stated below.

Purpose: The purpose of this MOU is to describe the respective responsibilities of the Lender and the Agency for the implementation of the USDA-Rural Housing Service Section 502 Direct Loan Program. This program is utilized by the Lender and the Agency to provide joint financing of the purchase or construction of single family housing in Virginia.

Origination of Loans:

Loan application form - Loan applications will be on a standard application form approved by the Agency. Application may be made on Rural Development Form 410-4, “*Application for Rural Assistance (Non-Farm Tract), Uniform Residential Loan Application*” or Fannie Mae Form 1003, “*Uniform Residential Loan Application*”, if it includes “*Additional Information Required for RHS Assistance*” (pages 6-7 of Form RD 410-4).

Loan application process - If the applicant has applied for assistance with the Agency, the Agency will complete the origination process. The Lender will accept copies of the Agency’s documents. If the applicant has applied with the Lender, the Lender will complete the origination process and the Agency will accept copies of the Lender’s documents.

Loan Application File - The original application file will be compiled and maintained by the party that originated it. However, a copy of the file will be shared with and provided to the participating lender upon request and to the extent necessary.

The file will contain only those items pertinent to the subject applicant(s) including, but not necessarily limited to: a complete loan application, a current credit report (not more than 6 months old), explanation of any credit problem, the most recently filed income tax return(s) or evidence of filing exemption, Freddie Mac Form 1008, Fannie Mae Form 1003, written verifications of employment and/or income, divorce decree, real estate appraisal (obtained in accordance with Uniform Standards of Professional Appraisal Practices (USPAP), FEMA Form 81-93, “*Standard Flood Hazard Determination*”, home inspection reports, and any other information which is customary based on the circumstances.

The Lender and the Agency will, to the maximum extent permitted by law, freely share information concerning the loan on a need to know basis, which may include the contents of the loan file, property inspections, and servicing history relative to delinquency, default and forbearance actions.

In order to facilitate information sharing, the Lender and the Agency will, no later than the time that the loan application file is completed, obtain a signed statement from the applicant(s) authorizing the disclosure of all information and documents maintained in a Party's loan application file or loan file to the other party. A suggested format is as follows:

I/We, the undersigned, have applied for a leveraged loan to be made simultaneously by (Lender) and the USDA Rural Development (Agency). I/We hereby authorize the Lender and the Agency to share all information and documents with each other which are maintained in their respective loan files concerning the loans to be made to me/us and to disclose such information and documents to each other. This authorization includes any documents and information pertaining to the loan no matter when it was obtained and it authorizes the disclosure of information and documents after any loans are made.

Date

Applicant(s)

Acceptance of the Loan Application File - A complete Loan Application File will be accepted by either the Lender or the Agency regardless of which Party originated or compiled the loan application file.

Underwriting decision - Both the Lender and the Agency will make their independent decisions based upon the information obtained and made a part of the Loan Application File.

Agency decision - The Agency's decision will be communicated to the Lender within five (5) business days of receipt of the complete Loan Application File, including the necessary property inspection.

Real Estate Appraisal – Appraisals are to be performed in accordance with applicable USPAP requirements by certified individuals licensed through the Commonwealth of Virginia.

The Agency will accept certification reports performed by independent, qualified, third party inspectors in accordance with HB-1-3550, 5.7 A.

Environmental review - The Agency will be responsible for all appropriate environmental reviews, which must be completed prior to loan approval. However, the Lender agrees to assist in the collection of necessary information when requested by the Agency.

IV. Loan Limitations/Requirements

The Lender agrees to provide financing at a fixed interest rate, amortized for 30 years, for a term of not less than 15 years.

The Lender may charge reasonable and customary rates, fees and points.

The Agency is not required to approve or make a leveraged loan under this MOU unless its applicable regulatory and policy requirements are satisfied.

Construction Loans – Generally, the Lender will advance funds for site acquisition and the Agency will fund construction draws. Both the Lender and the Agency are responsible for completing necessary inspections and disbursements through final completion and issuance of the Certificate of Occupancy.

V. Loan Closing

A joint loan closing will be conducted at a time and location mutually agreed upon between the Agency, the Lender and the Applicant(s).

Prior to loan closing, the Lender and the Agency will execute Form RD 1927-8, "*Agreement with Prior Lienholder*".

A copy of the Lender's promissory note, mortgage or deed of trust, evidence of title and hazard insurance and other loan closing documents will be provided to the Agency. Upon request by the Lender, the Agency will provide copies of the same.

Both the Lender and the Agency will be responsible for obtaining and maintaining their respective debt instruments, security instruments, lender's title insurance and any other loan instruments or documents deemed necessary.

Prior to engaging legal services, the qualifications of the closing agent must be submitted to the Agency on Form RD 1927-19, *Certification of Attorney*, for a determination that the requirements of Agency Instruction 1927-B will be met.

VI. Lien Sharing and Priority:

The Lender will have the first lien position and the Agency will have the second lien. Liens to secure funds not requiring periodic amortized payments will be junior to those securing amortized loans.

Vendor liens will be shared on a pro rata basis proportional to the participation of both the Lender and the Agency.

V. Loan Servicing

Escrow account - The Lender or Agency will establish and maintain an escrow account for the payment of real estate taxes, hazard, and as needed flood insurance. The Party who maintains the escrow account will, upon request, report annually to the other Party on the status of the escrow account, real estate taxes and property insurance.

The selection of the Party to establish and maintain the escrow account will be decided before loan closing. A letter will serve as evidence and will be placed in both Parties respective loan files. If the Lender maintains the account, the tax service fee for Rural Development must still be collected from the borrower(s).

Insurance - The security property will be insured for loss in an amount at least equal to the lesser of total unpaid balances of the Lender and Agency loans or the replacement value of the dwelling and other on-site improvements. The binder and eventual policy will name both the Agency and Lender as mortgagee.

Agency loan - The Agency will be responsible for the servicing and collection of the Agency loan.

Lender loan - The Lender will be responsible for the servicing and collection of the Lender loan.

Notice of default - The Lender and the Agency will notify each other in the event of default by the borrower(s) under the note or any other loan instrument.

Modification of loan terms - Neither the Lender or Agency will change or modify the terms of their respective loans or loan instruments without the prior written consent of all parties subject to the loan documents.

Foreclosure - The Agency will offer all servicing options in accordance with Agency regulations and policies. If and when foreclosure becomes necessary, each Party has an independent responsibility to protect its respective interest. Pursuant to the terms of Form RD 1927-8, the Agency has the right but not the obligation to cure any default on the Lender's loan after receiving notice from the Lender of default. It is recommended that any notice of intended foreclosure action be provided at least 30 days before the date of the intended sale.

OTHER PROVISIONS

Notice - Any notices required by this MOU will be given to the Party at the address stated above.

This MOU may be terminated by either party in writing at anytime.

Date

Date

***Rural Development approval official**

***CDM for local partnerships**

***State Director for multi-area or statewide partnerships**